

Operating Practice 125
March 1995

SOUTHWESTERN BELL TELEPHONE COMPANY

**Operating Practice: Nontariffed Activities and
Affiliate Transactions**

This practice establishes policy and procedures for all departments of Southwestern Bell Telephone to follow for contracts that involve nontariffed activities provided to outside entities and for all contracts with affiliates. This practice has been reissued in its entirety to reflect new titles, new Subject Matter Experts, to remove references to state contract coordinators and to incorporate affiliate issue material for sales and purchases into one document.

A handwritten signature in black ink, appearing to read "R. T. Hubbard", is positioned above a horizontal line.

President & CEO - SWBT

Sponsor:
Danley T. Hubbard
Vice President-Revenues and Public Affairs

Contact:
Bruce O. Kirk
314-235-4887

**310.0803 - Methods and Practices - Operating Practices
(Operating Practice 125)**

**TO ALL HOLDERS OF
OPERATING PRACTICE 125
NONTARIFFED ACTIVITIES
AND AFFILIATE TRANSACTIONS**

TYPE OF ACTIVITY

Replace

FILING INSTRUCTIONS

**This Operating Practice has been
reissued in its entirety.**

**Bruce O. Kirk
Area Manager-Affiliate Transactions**

Attachment

<u>SECTION</u>	<u>SUBJECT</u>	<u>PAGE</u>	<u>DATE</u>
1.0	GENERAL.....	3	March 1995
2.0	PURPOSE.....	5	March 1995
3.0	DEFINITIONS	6	March 1995
4.0	REGULATORY REQUIREMENTS	11	March 1995
5.0	SERVICE CLASSIFICATION PROCESS ...	13	March 1995
6.0	REGULATED NONTARIFF CONTRACT CLASSIFICATION.....	15	March 1995
7.0	INCIDENTAL ACTIVITIES CONTRACT CLASSIFICATION.....	24	March 1995
8.0	NONREGULATED CONTRACT CLASSIFICATION.....	34	March 1995
9.0	AFFILIATE TRANSACTION RULES.....	43	March 1995
10.0	SALES OF ASSETS TO AFFILIATES.....	46	March 1995
11.0	PURCHASES FROM AFFILIATES	48	March 1995
12.0	OTHER OCCASIONAL ASSET PURCHASES FROM AFFILIATES	53	March 1995
13.0	AFFILIATE SERVICES	56	March 1995

PROPRIETARY

<u>EXHIBIT</u>	<u>TITLE</u>	<u>PAGE</u>	<u>DATE</u>
A	Form SW-1161, Contract Classification	1	August 1990
B	Letter of Notification Example.	1	March 1995

ATTACHMENTS

1	Preparation of Form SW-1161 and Preliminary Letter of Notification.	1-7	March 1995
2	List of Contract Coordinator	1	March 1995
3	Other Departmental Contacts.	1-2	March 1995
4	List of Incidental Activities Contacts	1-4	March 1995
5	Affiliate Billing Contract Administrators Guide	1-26	March 1995
6	Affiliate Purchase Contract Clause.	1	March 1995
7	Southwestern Bell Telecommunications Quarterly Report of Sales to SWBT	1	March 1995
8	Flow Chart for the Sale of Affiliate Services	1	March 1995

PROPRIETARY

1.0 GENERAL

- 1.1 Prior to 1984, Southwestern Bell Telephone (SWBT) provided nearly all of its services under tariffs instead of contracts. Those contracts that existed were outgrowths of our regulated telephone business and were considered to be incidental to our business.
- 1.2 Since divestiture, contracts are being used more frequently for regulated, incidental and nonregulated business activities due to the rapidly changing regulatory environment.
- 1.3 The Federal Communications Commission (FCC) has established a method for separating the cost of carriers' nonregulated activities from the costs of regulated telephone operations and adopted rules governing transactions between regulated and nonregulated operations, including rules for transactions with nonregulated affiliates.
- 1.4 Southwestern Bell has filed a Cost Allocation Manual (CAM) in response to the FCC requirements. The CAM contains sections that list SWBT involvement in incidental activities, nonregulated activities and affiliate transactions. In addition, the CAM discusses cost accounting concepts, time reporting and defines the cost pools matrix which contains methods and procedures for apportioning common investment and expense costs to regulated and nonregulated activities.
- 1.5 In general, incidental activities do not require cost identification and tracking. However, the revenues must be identified, tracked and reported on an annual basis to ensure compliance with the one percent revenue limitation established by the FCC for Incidental activities.

PROPRIETARY

Not for use or disclosure outside Southwestern Bell
Telephone Company except under written agreement.

- 1.6 Nonregulated activities require cost identification and tracking to ensure that the costs may be captured in the cost pools for the Cost Allocation System (CAS) process which apportions costs between regulated and nonregulated activities. The CAS process apportions costs so that all nonregulated costs are removed prior to the Separations process.
- 1.7 This Operating Practice provides definitions, regulatory requirements, assignment of responsibilities for nontariffed activities, contract coordination contacts and affiliate transaction rules in order to assist SWBT personnel entering into contracts for the provision of these activities in following the requirements for these contracts.
- 1.8 The contracts referred to in this Operating Practice should be interpreted to include any oral or written agreements in which nontariffed activities are provided by SWBT to both affiliated and non-affiliated outside entities. This Operating Practice does not cover purchase contracts, with the exception of transactions with affiliates, as covered in this Operating Practice in Section 10, Purchases from Affiliates. All other information regarding purchases can be found in Operating Practice 112, Purchasing and Contracting Policies.
- 1.9 Oral contracts present substantial risks and should be discouraged except in very unusual circumstances involving minimal amounts of money. Employees entering into oral contracts must document the details of the contract within a short time after agreement is reached. This document should be signed and dated by the employee and, if possible, the other party's signature should be obtained.

PROPRIETARY

Not for use or disclosure outside Southwestern Bell
Telephone Company except under written agreement.

2.0 PURPOSE

- 2.1 The purpose of this Operating Practice is to establish the procedures to be followed by all departments of SWBT for contract administration and reporting of nontariffed activities provided under contract and to establish the policy for ensuring compliance with the FCC affiliate transaction accounting safeguards for purchases from and sales to affiliated companies.
- 2.2 This Operating Practice will assign responsibility for the elements of the contract process which include classification, assessment, costing, pricing, negotiation, and reporting for billing, accounting and cost and revenue tracking purposes. This Operating Practice also establishes the specific responsibilities, policy, activities and audit trail for sales to, and purchases from affiliates.
- 2.3 This Operating Practice describes the regulatory requirements for nontariffed activities provided under contract.
- 2.4 The general guidelines provided in this Operating Practice, and the Contract Coordinator and Departmental Contacts identified in the attachments, will facilitate the contract process and assist SWBT personnel entering into a contract to provide nontariffed activities to outside entities.

PROPRIETARY

Not for use or disclosure outside Southwestern Bell
Telephone Company except under written agreement.

3.0 DEFINITIONS

3.1 General - The definitions in this Operating Practice provide a common understanding for terms used in relation to contracts covering nontariffed activities that SWBT provides to outside entities, and in affiliate transactions.

3.101 Above-the-line - Revenues and expenses which net down to utility operating income as reported on the SWBT regulated books. This generally means revenues and expenses included in regulatory reporting.

3.102 Activities - Sales, leases, license agreements or any provision of services or products by SWBT in return for the receipt of any type of revenues, commissions or royalties.

3.103 Affiliate - Bell Communications Research, Inc. and any of its subsidiaries, any SWBT subsidiaries, Southwestern Bell Corporation (SBC), and all subsidiaries of SBC other than SWBT.

3.104 Affiliate Service - Any of several activities that SWBT performs internally that are provided to SBC and any of SBC's other subsidiaries exclusively utilizing primarily existing resources.

3.105 Affiliate Transaction - A transaction which includes assets and/or services being transferred or provided to SWBT from an affiliate or from SWBT to an affiliate.

PROPRIETARY

Not for use or disclosure outside Southwestern Bell Telephone Company except under written agreement.

- 3.106 Attributable Cost Method - The principal methodology adopted by the Federal Communications Commission (FCC) in CC Docket 86-111. This method is a forward-looking fully distributed costing methodology under which all cost with either a direct or indirect link to either regulated or non-regulated activities will be directly assigned to the appropriate activity. The remaining costs will then be apportioned between regulated and non-regulated activities. Cost causational attribution factors are used whenever possible, and the remaining costs are apportioned on the basis of a general allocator.
- 3.107 Below-the-line - Income and expenses reported below operating income on the SWBT books. This generally means revenues and expenses not allowed for regulatory reporting.
- 3.108 Contract - Any document that memorializes Activities or Affiliate Transactions.
- 3.109 Contract Administrator - A departmental representative who has primary responsibility for the administration of a specific contract. Usually, the Contract Administrator is either the Product Manager, a Contract Manager or the Service Provider.
- 3.110 Contract Manager - A Procurement Contracting representative who may act as the Contract Administrator for a specific contract.
- 3.111 Cost Allocation Manual (CAM) - A manual prepared by SWBT that employs the cost allocation standards and guidelines adopted by the FCC to apportion costs between regulated telephone service and nonregulated activities. The CAM also includes affiliate transaction descriptions and costing methods. The CAM uses an attributable cost method. The CAM is filed with and approved by the FCC.

PROPRIETARY

Not for use or disclosure outside Southwestern Bell
Telephone Company except under written agreement.

- 3.112 Deregulated - Those activities that are not subject to Title II regulation by the FCC or are no longer regulated by the state utility commissions and/or the FCC.
- 3.113 Detariffed - Those activities that were provided under state and/or FCC tariff, but are now provided without tariff, due to a change in the FCC or state rules.
- 3.114 Fully Distributed Costing (FDC) - A costing methodology that requires all costs to be either directly assigned or apportioned to the Activities giving rise to those costs based on cost causation factors whenever possible, with the remaining costs apportioned on the basis of a general allocator.
- 3.115 Incremental Unit Costing (IUC) - A costing methodology that identifies the additional costs resulting from the provision of a new activity. Incremental cost studies, as currently performed by SWBT, may include direct costs that may be fixed or variable.
- 3.116 Incidental - Those nontariffed Activities that have been traditionally provided as incidental to tariffed services, are an outgrowth of regulated operations, are not a separate line-of-business, and fall within the revenue limitation established by the FCC. The revenues of an Incidental activity, when aggregated with the revenues of other Incidental Activities, must not exceed one percent of total company annual regulated operating revenues.
- 3.117 Non-incidental - Those nontariffed Activities that are not Incidental. This could include Regulated services, Nonregulated services that are line-of-business activities, and those former Incidental activities that would cause SWBT Incidental revenues, in the aggregate, to exceed one percent of total company annual regulated operating revenues.

PROPRIETARY

Not for use or disclosure outside Southwestern Bell
Telephone Company except under written agreement.

- 3.118 Nonregulated - Those Activities that are not classified as common carrier communications services for purposes of Title II of the Communications Act of 1934, as amended. This includes preemptively deregulated services and excludes those activities classified as Incidental.
- 3.119 Nontariffed - Those Activities that are not provided under either state or FCC tariff.
- 3.120 Nontariffed Regulated - Any of those activities that are not provided under either state or FCC tariff but receive regulated accounting and cost allocation treatment.
- 3.121 Outside Entity - Any corporate, civic or commercial organization other than Southwestern Bell Telephone Company or its affiliates.
- 3.122 Preemptively Deregulated - Those Activities that have been deregulated by the FCC in a manner that preempts state regulation.
- 3.123 Prevailing Price - The price paid for an asset or service by non-affiliate third parties in a substantial number of transactions. The test period for determining a substantial number of transactions is the current year to date plus the prior calendar year. The "substantial number" of transactions criterion is met in a relevant market area (relevant market area being appropriate only if the affiliate uses different prices in different market areas for the same products or services) when the following factors exist:
Sales Transactions to non-affiliates constitute ten percent (10%) of all sales transactions of the asset or service with a minimum of five (5) such sales, or one such sale that totals \$50,000 or more.

PROPRIETARY

Not for use or disclosure outside Southwestern Bell Telephone Company except under written agreement.

- 3.124 **Product Manager** - A Marketing representative responsible for the life cycle management of assigned products or services. The Product Manager may be appointed to act as a Contract Administrator for a specific contract.
- 3.125 **Regulated** - All Activities that are classified as common carrier communication services for purposes of Title II of the Communications Act of 1934, as amended. This includes state-deregulated basic services where the activities are reflected in interstate tariffed offerings and are detariffed or otherwise subjected to some form of deregulation in one or more states. Activities deregulated in the interstate jurisdiction that are not preemptively deregulated and items that are deregulated in the intrastate jurisdiction but are regulated in the interstate jurisdiction are also to be classified as Regulated. Activities classified as Incidental also receive regulated accounting and cost allocation treatment.
- 3.126 **Service Provider** - A representative from the department that provides an Activity under contract to outside entities or affiliates. The Service Provider may act as the Contract Administrator.
- 3.127 **Tariffed** - Those Activities that are provided pursuant to documents filed with state or federal regulatory authorities. These documents (tariffs) contain terms and conditions under which the activity is provided, describe the activity and provide a method for determining the rates.

PROPRIETARY

Not for use or disclosure outside Southwestern Bell Telephone Company except under written agreement.

4.0 REGULATORY REQUIREMENTS

- 4.1 All Nontariffed transactions between SWBT and outside entities must be treated in accordance with regulatory rulings to ensure that the SWBT regulated business activities are not subsidizing any other business activities.**
- 4.2 The FCC in CC Docket 86-111 sets forth the rules for ensuring appropriate cost allocation treatment between Regulated and Nonregulated Activities, establishes limitations on Incidental Activities, and defines Affiliate Transaction accounting safeguards.**
- 4.3 Part 64 of the FCC Rules and Regulations documents the cost allocation requirements established by the FCC in the CC Docket 86-111 Order. The CAM that SWBT has filed with the FCC complies with the provision of Part 64. An annual CAM audit is performed to monitor compliance with the cost allocation requirements. The FCC requires that SWBT notify the FCC of the offering of any new Nonregulated Activity sixty days prior to providing that activity.**
- 4.4 Part 32 of the FCC Rules and Regulations includes instructions for the accounting treatment to be accorded to both Regulated and Nonregulated activities, including Nontariffed contract Activities and affiliate transactions. The SWBT Accounts Manual provides the detail necessary for appropriate SWBT reporting to ensure compliance with Part 32.**
- 4.5 Part 36 of the FCC Rules and Regulations provides requirements for the handling of Activities in relation to the jurisdictional separations process.**

PROPRIETARY

Not for use or disclosure outside Southwestern Bell
Telephone Company except under written agreement.

- 4.6 Computer Inquiry II, Computer Inquiry III and the Modification of Final Judgment restrict the types of Nonregulated activities SWBT may enter into on a contractual basis.
- 4.7 State regulatory bodies may request the review of any Nontariffed Regulated or Incidental contracts and any Affiliate Transactions and Affiliate Contracts.
- 4.8 The purpose of the sections that follow is to establish the procedures to be followed by all departments of SWBT for the contract administration of nontariffed activities provided under contract to non-affiliate third parties and to affiliate companies and to establish the procedures necessary to assure compliance with the FCC affiliate transaction accounting safeguards for both sales to, and purchases from affiliates.

PROPRIETARY

Not for use or disclosure outside Southwestern Bell
Telephone Company except under written agreement.

5.0 SERVICE CLASSIFICATION PROCESS

- 5.1** As soon as an employee becomes aware of a new or potential non tariffed SWBT service offering, a Letter of Notification must immediately be sent to the Cost Allocation Manual (CAM) contact. See Attachment 1, page 1 for details. If the service is an existing service that is being performed within SWBT for SWBT in the normal course of business and is being considered for offering to affiliates only see Section 13 of this Operating Practice.
- 5.2** The classification process occurs only once for each service unless there are significant changes in the service being offered. If the service to be offered is just another occurrence of a service that has already been classified and the buyer is not an affiliate, this Operating Practice is not applicable.
- 5.3** If the buyer of a previously classified service is to be an affiliate, and the service is not a service that is provided to affiliates only as discussed in 5.1 above, enter the contract classification process as described in 6.3 for services that have been classified as regulated nontariff, 7.3 for services that have been classified as incidental activities, and 8.4 for services that have been classified as nonregulated. This will assure that all affiliate contracts are reviewed by the Contract Coordinator, and the CAM Attorney and that the SWBT CAM is updated as necessary, and that copies of the contracts are provided to the appropriate regulatory bodies.
- 5.4** Based on the information provided the CAM contact will determine whether the service is Regulated or Nonregulated. If exception time reporting is required as in the case of Nonregulated services the CAM contact will provide the time reporting information.

PROPRIETARY

Not for use or disclosure outside Southwestern Bell Telephone Company except under written agreement.

- 5.5 Upon receipt of the information from the CAM contact, the formal contract classification begins. The process for contract classification depends on the service classification as determined by the CAM contact.
- 5.6 The contract classification process for regulated non tariffed is in Section 6 of this Operating Practice. The contract classification process for incidental activities is in Section 7 of this Operating Practice. The contract classification process for nonregulated contracts can be found in Section 8 of this Operating Practice.
- 5.7 The department that negotiates the contract is responsible for appointing a Contract Administrator for the contract. Once the contract is negotiated, the department that is actually providing the service (Service Provider) must appoint a manager to assume the role of Contract Administrator and to perform the ongoing reporting and management oversight of the contract that will be necessary over the life of the contract.
- 5.8 The Contract Administrator is responsible for certain activities as defined in the following sections of this practice.

PROPRIETARY

Not for use or disclosure outside Southwestern Bell
Telephone Company except under written agreement.

6.0 REGULATED NONTARIFF CONTRACT CLASSIFICATION

- 6.1** The classification of Regulated nontariff indicates that the service is one of the following types of activity:
- a.** a common carrier communications service for purposes of Title II of the Communications Act of 1934, as amended;
 - b.** a common carrier offering subject to forbearance, streamlined or other decreased regulation;
 - c.** an Activity Regulated in the interstate jurisdiction that may be detariffed or deregulated in the states; or
 - d.** an Activity that is Deregulated only in one jurisdiction, and Regulated in the other jurisdiction. For example, if the activity is deregulated in the interstate jurisdiction and the deregulation is not preemptive.
- 6.2** A service may be classified as regulated and also classified as an affiliated transaction. Exceptions for treatment of affiliate transactions are noted in the following paragraphs of this section.
- 6.3** Upon classification of regulated by the CAM contact the Contract Administrator begins the contract classification process.
- 6.301** **Step 1 Contract Assessment**
For each potential contract, the new product, service or Activity must be assessed for marketability.
- a.** Send the letter of request to the Marketing Assessment Address identified in Attachment 3.

PROPRIETARY

Not for use or disclosure outside Southwestern Bell Telephone Company except under written agreement.

- b. Provide a description of the product, service, or Activity.
- c. Describe the targeted market for the product, service or Activity.
- d. If the result of the assessment is to introduce a regulated nontariffed (contract) service, then contracts would be negotiated with the buyer. See item 6.307 of this Operating Practice for information on negotiation.

6.302 Step 2 Cost Studies

A cost study is required for each new or renegotiated contract for the provision of Nontariffed Activities. The cost study results will be provided to the Product Manager for use as a cost floor reference. For generic contracts and contracts where the pricing elements remain the same, one cost study will suffice.

- 1) The type of cost methodology used will be based on the classification of the contract.
 - a. For contracts with Nonaffiliated third parties that are classified as Regulated, an incremental unit cost study will be used as the cost floor reference for establishing the price.

PROPRIETARY

Not for use or disclosure outside Southwestern Bell Telephone Company except under written agreement.

- b. For contracts with Affiliates classified as Regulated, a Fully Distributed Cost study as promulgated in 47 C.F.R. 32.27 and 47 C.F.R. 64.901, will be used as the cost floor reference for establishing the price except in cases where a substantial number of nonaffiliate customers for the service will exist and a prevailing price will be established for the service. (Note: State jurisdictions may have cost rules equivalent to or the same as a tariff for certain services. A legal review will assist in this determination.
- 2) To request a cost study, a letter should be sent to the Cost Studies Request Address identified in Attachment 3. Questions may be referred to the Cost Studies Contact identified in Attachment 3. The following information is required.
 - a. Provide a description of the contract, the contract period, and a description of each pricing element (such as per unit, per month, per hour, etc.).
 - b. Provide all non-recurring cost elements (one-time and/or start-up) by state and the anticipated date the costs will be incurred.

PROPRIETARY

Not for use or disclosure outside Southwestern Bell Telephone Company except under written agreement.

- c. Provide all recurring cost elements associated with capital investments; i.e., all equipment, account codes, installation hours, engineering hours, vendor fees, property tax and maintenance expenses (dollars or hours) by state and the anticipated date the costs will be incurred.
 - d. For labor efforts (recurring and non-recurring) provide the Responsibility Code (RC), the Job Function Code (JFC), the job level, the number of people and the hours required by state to perform the function. Also indicate how the time was determined (e.g., time and motion study, experience, etc.).
- 3) The Cost Studies organization will perform a cost study based on the classification of the contract.
 - a. Cost Studies personnel may request additional information, as needed, from the Service Provider and/or the Contract Administrator.
 - b. Cost Studies personnel will develop the annual costs associated with the Activity including capital cost and operating expenses.

PROPRIETARY

Not for use or disclosure outside Southwestern Bell Telephone Company except under written agreement.

- c. The cost study results for each pricing element will be provided to the Marketing Department to establish the price. The cost study can usually be completed within two months from the date of the request. This cost is considered to be the cost floor for establishing the price.
- d. The cost study results may be provided to the Separations organization for their use if required.

6.302 Step 3 Pricing

The pricing of specific contract Activities is normally done by the Marketing organization. Regulated nontariff service pricing is coordinated through the Rates organization. Three basic factors are considered when determining price: market value, service value and cost recovery.

- a. Market value is a primary factor in setting price. If a comparable service, product or activity exists in the open marketplace, the price should be set in relation to that market price.
- b. If a market comparable is not available, service value can be used in setting the price. The value of a service, product or Activity may be what the customer is willing to pay or what it would cost the customer to perform the service internally.
- c. However, both market value and service value pricing must recover cost as determined by the cost studies group and should allow for a reasonable contribution.

PROPRIETARY

6.303 Step 4 Negotiation

For each contract, coordination must occur between the Buyer, the Service Provider and either the Product Manager or a Contract Manager to negotiate terms for a formal contract. Negotiation assistance and guidance is available from the Marketing and Legal Departments and where appropriate, the Procurement Department. Specifically, the Marketing group that sets the price for a particular service can provide contract negotiation or recommendations on contract content. Prior to signing, all contracts are required to be submitted for legal review, as indicated below.

6.304 Step 5 Legal Review

Each Contract Administrator must forward to the appropriate state or Headquarters Legal Department the contract for review before the contract is signed. If the contract covers an affiliate transaction, the CAM Attorney must also review the contract prior to signing.

6.305 Step 6 Contract Signing

Upon return from legal review and if necessary the CAM Attorney review, the Contract Administrator must obtain the appropriate signatures of the buyer and SWBT (according to the Schedule of Authorizations).

6.306 Step 7 Prepare SW-1161

Immediately after the contract is signed the Contract Administrator must prepare the SW-1161 as described in Attachment 1. The SW-1161 is forwarded to the Contract Coordinator listed in Attachment 2 for formal classification. A copy of the signed contract must be attached to the SW-1161.

PROPRIETARY

Not for use or disclosure outside Southwestern Bell Telephone Company except under written agreement.

6.307 Step 8 Formal Classification

The Contract Coordinator will review the contract and sign the SW-1161 indicating concurrence with the classification of the activity as noted on the SW-1161.

6.308 Step 9 Classification Attorney Review

The Contract Coordinator must obtain appropriate Legal Department representative signature indicating that he/she has reviewed the contract and agrees with the classification.

6.309 Step 10 Accounting Classifications

Upon return of the SW-1161 with the proper signatures as defined in steps 8 and 9, each Contract Administrator must coordinate with the Contract Coordinator (see Attachment 2) who will contact Accounting Classifications, when necessary, to ensure that the proper account classifications are determined for financial reporting purposes.

The accounting for Regulated Nontariffed Activities provided under contract is consistent with Regulated Activities provided under federal or state tariffs. All expenses are charged directly to the appropriate expense accounts as incurred. The revenues from these services are credited to the appropriate revenue accounts consistent with the recording of revenues for similar services under tariff.

PROPRIETARY

Not for use or disclosure outside Southwestern Bell Telephone Company except under written agreement.

6.310 **Step 11 Reporting & Tracking**

Each Contract Administrator will determine the appropriate tracking system and must ensure that the details of the ongoing contract Activities are provided by the Service Provider to the appropriate billing and tracking systems. If the service is provided to affiliates as well as nonaffiliates, the Contract Administrator must coordinate with the Contract Coordinator listed in Attachment 3 of this Operating Practice to establish procedures for tracking the affiliate transactions for regulatory reporting. All reporting for the billing and tracking of contract Activities provided by SWBT is reported to the Comptrollers office through the following accounting processes:

Revenue special billing or CRIS billing is the methodology for contracts classified regulated non-tariff.

- 6.4 The contracts that have been classified regulated, nontariff and affiliate transaction via Form SW-1161 will be used by the Contract Coordinator to assist the CAM Contact on a quarterly basis in updating the SWBT CAM filed with the FCC.
- 6.5 **Separations Treatment** Each Contract Administrator must provide information as requested by the Separations organization for fulfilling FCC requirements for appropriate Separations treatment. Questions may be referred to the Separations Contact listed in Attachment 3.
- 6.6 **Review** Each contract should be reviewed by the Contract Administrator on an annual basis to determine if there have been any changes that may require the contract to be reentered into the classification process.

PROPRIETARY

Not for use or disclosure outside Southwestern Bell Telephone Company except under written agreement.

- 6.7 Cancellation If a contract is cancelled, the Contract Administrator should write "CANCELLED on (date)" in red ink at the top of the original SW-1161, and return the form to the Contract Coordinator. In addition, the Contract Administrator must ensure that the ongoing reporting associated with the contract Activities is terminated appropriately.

PROPRIETARY

Not for use or disclosure outside Southwestern Bell
Telephone Company except under written agreement.